



INTERNAL AUDIT FINANCIAL RELATED POLICE DEPARTMENT CASH FUNDS

December 15, 2003

Roanoke City Council Audit Committee
Roanoke, Virginia

We have audited the accompanying statement of cash receipts and disbursements of the Police Cash Funds for the year ended June 30, 2003. This financial statement is the responsibility of the Police Department Administration. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

BACKGROUND

The Commission on Accreditation for Law Enforcement Agencies (CALEA) requires Police Departments to establish written directives governing the maintenance of all cash fund accounts. At a minimum, departments must have:

- A ledger system that identifies initial balances, cash received and disbursed, and ending balances.
- Records or documentation for cash received
- Authorization for disbursements
- Documentation requirements for expenditures
- Positions authorized to disburse or accept cash
- Quarterly accounting of agency cash activities

The Accreditation standards also require an annual independent audit of these funds.

The City of Roanoke Police Department maintains an emergency fund account that is used when a need for cash arises and there is not sufficient time to request money from the Finance Department. It also maintains a federal drug fund that is used in Vice Bureau investigations. The department issues a check from the federal drug fund to the Vice Lieutenant that he cashes and distributes to his detectives for operating expenses. In addition to the cash obtained from the federal drug fund, the Vice Lieutenant is accountable for a "flash and buy" fund that was established by a court order for use in drug investigations.

The Police Department is also responsible for the collection of the following fees: verifications of police reports, reproductions of documents and photos, precious metal permits, and conservators of the peace background investigations. Training events are organized by the Police Academy several times a year, where fees are collected from any attendee that is not a City of Roanoke Officer. All fees collected are deposited with the City Treasurer. See the attached schedule of audited fees for total fees collected in the 2003 fiscal year.

In addition to the above, the department confiscates cash during arrests. The arresting officer presents the cash to the property room and at the end of each day the collections are deposited with the City Treasurer.

PURPOSE

The purpose of this audit was to determine that cash funds used and collected by the Police Department are supported by appropriate documentation, and that transactions are recorded in a complete and accurate manner.

SCOPE

We tested compliance with certain laws and regulations, obtained an understanding of internal controls, and assessed control risk. Our examination included transactions and cash balances for the 12 months ended June 30, 2003 for the following: chief's emergency fund, flash and buy, Federal drug funds, and petty cash, as reported in the attached financial statement. Our examination also included, report verification fees, fees for background investigations, fees for vehicle towing and storage, animal control fees, and training fees, which are deposited with the City Treasurer as Police fees. The property room cash was also examined. The property room cash is held in a safe and deposited with the City Treasurer.

METHODOLOGY

We conducted this audit using standard auditing procedures for evaluating transactions. This included performing a study of the system of internal controls to the extent necessary to plan our test work. This involved interviewing Police personnel and reviewing applicable policies and procedures used to process transactions. We then performed detailed testing of the underlying transactions that comprise the cash activity reported.

RESULTS**Finding 01 – Precious Metals Permits**

Virginia State Code requires that any person, firm, partnership or corporation engaged in the business of purchasing secondhand precious metals or gems must obtain a \$200 permit to do so on an annual basis. The purpose of the permit is to ensure people and businesses dealing in precious metals have not been convicted of any felonies, to ensure their weighing devices have been inspected, and to aid the department in identifying all business dealing in precious metals.

Only three precious metal permits were issued in fiscal year 2003. The Police department has since identified 31 businesses dealing in precious metals that operate in the city.

Agreed Upon Action 01 – Precious Metals Permits

The Police Department mailed a letter to the thirty-one businesses referenced above on August 29, 2003. The letter included an application to send back to the department along with information about the permit. Once businesses return the applications, the department plans to establish a list of businesses that are actually required to have the permit and automatically bill each business annually. The department has been in touch with the Commissioner of Revenue to garner their assistance in establishing a procedure for collecting the fees from the businesses that are required by law to possess the gold permit.

REQUIRED COMMUNICATIONS**System of Internal Controls**

The Police Department is responsible for establishing and maintaining a system of internal controls. In fulfilling this responsibility, judgments by management are required to assess the expected benefits and related costs of control procedures. The objective of a system of internal controls is to provide the Police Department with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with the Chief's authorization, and that transactions are accurately recorded.

As part of our examination, we made a study of the system of internal controls to the extent that we considered necessary to evaluate the system as required by government auditing standards. The purpose of our study was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the records of cash funds administered by the City of Roanoke Police Department.

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. A projection of any evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation would not necessarily disclose all material weaknesses in the system of internal controls. Accordingly, we do not express an opinion on the system of internal controls.

Compliance with Laws and Regulations

Compliance with laws and regulations applicable to the cash funds of the Police Department is the responsibility of the Chief of Police. As part of obtaining reasonable assurance about whether the cash fund financial records are free of material misstatement, we performed tests to verify compliance with certain provisions of laws and regulations by the Police Department. Laws and regulations tested include the compliance with Code of Virginia, Code of the City of Roanoke, and Roanoke City Police Department Operational Directives. Our objective was not to provide an opinion on overall compliance with applicable laws and regulations. Accordingly, we do not express such an opinion.

CONCLUSION

In our opinion, the attached financial statement presents fairly, in all material respects, the cash transactions of the Police Department's cash funds for the year ended June 30, 2003.

We would like to thank the Police Department for their cooperation during the audit.

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Senior Auditor

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Assistant Municipal Auditor

Drew Harmon, CPA, CIA
Municipal Auditor

POLICE CASH FUNDS
Statement of Cash Receipts and Disbursements
Twelve Months Ended
June 30, 2003

<u>Fund</u>	<u>Beginning Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance June 30, 2003</u>
Flash and Buy	\$ 2,660.00	\$ 0.00	\$ 0.00	\$ 2,660.00
Federal Drug Funds	13,676.00	30,690.00	27,826.00	16,540.00
Chiefs Emergency Fund	1,843.00	387.00	387.00	1,843.00
Petty Cash Fund	<u>141.00</u>	<u>146.00</u>	<u>93.00</u>	<u>194.00</u>
Totals	<u>\$18,320.00</u>	<u>\$31,223.00</u>	<u>\$28,306.00</u>	<u>\$21,237.00</u>

See Notes to Financial Statement.

POLICE CASH FUNDS
Schedule of Audited Fees
Twelve Months Ended
June 30, 2003

Fee:	Total Collections:
Report Verification	\$28,085.00
SPCA pickup and boarding	17,028.00
Vehicle Towing	3,853.00
Conservator of the Peace Investigations	2,233.00
Vehicle Storage	765.00
Precious Metals Permit	600.00
Duces Tecum Requests	<u>369.00</u>
Total	<u><u>\$52,933.00</u></u>

POLICE CASH FUNDS
Notes to Financial Statements
Twelve Months Ended
June 30, 2003

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

Flash and Buy monies are used in drug investigations when it is known that the cash will not be lost.

Federal Drug Fund monies are used for purchases made by officers in conducting investigations. The monies may be used for the purchase of props, gas for undercover operations, purchases of drugs from suspects, and other similar uses.

Chief's Emergency Fund monies are used for unexpected expenses that are required immediately.

The Petty Cash Fund is maintained for the purchase of inexpensive items that are needed immediately.

Basis of Presentation:

The police department maintains its financial records in accordance with the cash receipts and disbursements method of accounting. Revenue from all sources is recognized when received. Likewise, expenses are recognized when actually paid. Accordingly, there is no recognition of accounts receivable, accounts payable, or accruals.

Note 2. DEPOSITS

The following presents the amount of deposits that are fully insured by Federal depository insurance.

Cash deposited in banks at June 30, 2003 has a bank value of \$11,660. Cash on hand at June 30, 2003 has a value of \$9,577. Total cash at June 30, 2003 has a value of \$21,237.